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Message Text

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51
ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 PA-04 SPC-03 SAM-01 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 L-03 H-03 PRS-01 USIA-15 DRC-01

/184 W
---------- 101387
R 080922Z FEB 74
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 9901
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMCONSUL HONG KONG
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJ: FOREX MARKET AND RELATED DEVELOPMENTS - FEB 4-8

BEGIN SUMMARY: YEN STRENGTHENED ABRUPTLY EARLY IN WEEK BUT LOST
SOME GROUND THEREAFTER. BOJ FOREX OFFICIAL CHARACTERIZED WEEK
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AS "CALM" DESPITE LARGE WITHIN-DAY FLUCTUATIONS. BOJ INTERVEN-

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TION INSIGNIFICANT DURING WEEK. MARKET TURN-AROUND PARTLY ATT-
RIBUTED TO IMPROVED FOREX RECEIPTS AND PROSPECTS OF SURGE IN
EXPORTS. END SUMMARY.

1. SPOT DOLLAR FLUCTUATED BETWEEN HIGH OF Y298.90 ON MON TO LOW
OF Y289.50 ON TUES. REPRESENTATIVE RATE REACHED Y294.00 ON TUES
BUT DOLLAR RECOVERED TO Y298.00 ON THURS BEFORE SLIDING BACK
TO Y296.10 ON FRI. VOLUME IN SPOT MARKET WAS VERY LIGHT AT $245
MIL FOR WEEK. FOREX RECEIPTS INCLUDED REDEMPTION OF U.S. TREA-
SURY BILLS PURCHASED BY SECURITIES DEALERS AND INSURANCE COS
LAT NOV, AS WELL AS RUNDOWN*OF FOREX BALANCES OF RESIDENTS.

2. IN FORWARD MARKET DOLLAR DROPPED EVEN MORE SHARPLY TO Y301.00
FOR THREE MONTH ON TUES BUT BY WEEKEND HAD RISEN AGAIN TO
Y305.05. PREMIUM OF 12.09 PERCENT ONLYSOMEWHAT NARROWER THAN
WEEK AGO. SIX MONTH RATE MOVED IN SIMILAR FASHION ENDING AT
Y308.50 FOR PREMIUM OF 8.37 PERCENT. VOLUME AMOUNTED TO $411
MIL IN FORWARDS AND $232 MIL IN SWAPS. STATISTICS ON EXPORT
LETTERS OF CREDIT FOR JAN INDICATE 40 PERCENT INCREASE OVER
YEAR AGO. MARKET CONSIDERES THIS CLEAR SIGN OF RENEWED EXPORT
GROWTH. HOWEVER, EMBASSY VIEW MORE CAUTIOUS AND CONSIDERS IT
PERHAPS LARGELY A LEAD/LAG EFFECT ON LETTERS OF CREDIT IN
EFFORT TO RECEIVE PREPAYMENT FOR EXPORTS.

3. OFFSHORE BORROWING: LIBERALIZATON OF OFFSHORE BOND ISSUES
AND FOREIGN IMPACT LONAS EFFECTIVE JAN 7 (TOKYO 132 PARA 4,
TOKYO A-39 PARA A-2) REMAINS UNDER TIGHT MOF CONTROL, AND IS
LINKED TO B/P "NEED". BRUSSELS PRESS REPORTS OF POSSIBLE $3
BIL PROSPECTIVE JAPANESE BORROWING IN U.S. CAPITAL MARKET (ROME
1698 PARA 3) CONSIDERED GROSSLY EXAGGERATED HERE. IT MAY HAVE
BEEN BASED ON OVERLY OPTIMISTIC VIEWS OF FOREIGN INVESTMENT AND
MERCHANT BANKERS WHO DESCENDED ON TOKYO ENMASSE A FEW WEEK
AGO. AS YET, MOF INTFIN BUREAU HAS ONLY GIVEN BORROWING AUTH-
ORIZATION THROUGH MARCH, ALTHOUGH BANKERS EXPECT FURTHER EASING
IN THE SECOND QUARTER. DESPITE RECENT LIBERALIZATION, MOF STILL
VERY MUCH TRAFFIC CONTROL MINDED OVER ELIGIBLE BORROWERS,
SOURCE OF FUNDS, TIMING, AS WELL AS AGGREAGE AMOUNTS. MARKET
VIEW IS THAT IMPACT LOANS COULD BE EASILY EXPANDED IF CONTROLS
LOOSENED. ON OTHER HAND, JAPANESE CORPS MUCH LESS INTERESTED
THAN FORMERLY IN ISSUING LONG-TERM BONDS ABROAD AND JAPAN MUST
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REEDUCATE U.S. AND OTHER FOREIGN ANALYSTS AND INVESTORS OF THE
QUALITY OF HIGHLY LEVERED JAPANESE COMPANIES. THEREFORE, NEW
ISSUES WILL NOT BE A MAJOR SOURCE OF ADDITIONAL B/P SUPPORT. AT
PRESENT, $200 MIL OF ADDITIONAL IMPACT LOANS ALLOCATED IN EXT
TWO MONTHS ALONG WITH ABOUT THREE OFFSHORE BOND ISSUES TOTALING
$30-32 MIL.

4. IMPACT LOANS: MOF HAS PERMITTED FOREIGN BANKS TO INCREASE

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IMPACT LOANS BY AN AGGREGATE OF $200 MIL BY END OF MAR. INI-
TIALLY, ONLY ELECTRIC UTILITY COS WERE ELIGIBLE UNDER MOF REGS.
HOWEVER, UTILITIES NOT PARTICULARLY ANXIOUS TO UNDERTAKE FOREX
RISKS AND ARE MUCH MORE INTERESTED IN SPEEDLY GOJ APPROVAL OF
REQUESTED UTILITY RATE HIKES TO OFFSET HIGHER FUEL COSTS.
MOREOVER, UTILITIES WOULD RATHER BORROW DOMESTICALLY (AT
PREFERENTIALLY LOW INTEREST RATES) OR, IF NECESSARY, ISSUE
YEN DEBENTURES. WHEN UTILITIES BALKED AT BORROWING MORE THAN
$100 MIL OVERSEAS, MOF DECIDED TO ALLOCATE ADDITIONAL $60 MILL
TO STEEL COS AND $40 MIL TO SHIPBUILDERS. BANKS NOW IN PROCESS
OF GRANTING LOANS TO LATTER INDUSTRIES. LOANS BEING ALLOCATED
BETWEEN BANKS ON OLD HISTORICAL SHARE BASIS, AND BEING MADE
WITHOUT TRADITIONAL JAPANESE BANK GUARANTEE. SOME BORROWERS
REQUEST OPTION OF EITHER EURO RATE PLUS 0.75 PERCENT OR U.S.
PRIME RATE PLUS 0.75 PERCENT, WHICHEVER IS LOWER WHEN RATE IS
REDETERMINED EVERY SIX MONTHS. SPREAD ON SOME LOANS MAY BE
SHAVED TO 5/8 PERCENT OR EVEN 1/2 PERCENT, IN PART BECAUSE
THESE 5 TO 7-YEAR LOANS WILL BE REPAID SERIALLY RATHER THAN
LUMP SUM REPAYMENT AS IN PAST. (PREPAYMENT IS ALLOWED). MOF
NOT YET DETERMINED INCREASES IN IMPACT LOANS IN SECOND QUARTER.
U.S. BANKERS, HOWEVER, EXPECT THAT HENCEFORTH SOME OF THE
LARGER JAPANESE FOREX BANKS WILL ALSO BE INCLUDED IN THE ALL-
OCATION WHICH NOW GIVEN ONLY TO FOREIGN BANKS.

5. FOREIGN BOND ISSUES: MOF ESTABLISHING QUEUE SYSTEM. AT END
OF JAN, 130 COS HAVE APPLIED FOR PERMISSION TO ISSUE BONDS
ABORAD. EVEN THOUGH FUNDS CAN ONLY BE USED OFFSHORE, MANY COS
ON LIST EVIDENTLY HAVE NO PROSPECTIVE FOREIGN INVESTMENT
CASH NEEDS. INITIALLY, MOF ONLY PERMITTING THREE ISSUES PER
MONTH, BUT INVESTMENT BANKERS EXPECT THIS TO BE INCREASED PER-
HAPS AROUND MID-YEAR. MOF REPORTEDLY ONLY APPROVING EURO
ISSUES BUT IN FUTURE MONTHS WILL AUTHORIZE ISSUES IN U.S.
MARKET.
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6. SHORT-TERM EURO-MARKET BORROWING BY JAPANESE BANKS IN ALSO
TIGHTLY CONTROLLED. SINCE APPOINTMENT OF MINFIN FUKUDA, BANKS
HAVE HAD TO CUT BACK ON SYNDICATED LOANS, UNLESS OF COURSE,
INVESTMENT PROJECT ITSELF OF SUBSTANTIAL INTEREST TO JAPAN.
MOREOVER, BANKS' SHORT-TERM FOREIGN BORROWING (WHICH BELOW-THE-
LINE B/P ITEM) MERELY INCREASES SIZE OF JAPAN'S OVERALL
B/P DEFICIT, AND THIS NOW CONSIDERED UNDESIRABLE DEVELOPMENT.
PRESUMABLY JAPANESE BANKS STILL ALLOWED TO MEET MONTHLY RE-
PAYMENTS OF BOJ/MOF SWAP USANCE CREDITS AND MOF FOREX SPECIAL
DEPOSITS BY BORROWING IN EURO-MARKET.
SHOESMITH

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